

REVISED SURREBUTTAL TESTIMONY AND EXHIBIT OF

ANTHONY D. BRISENO

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2019-290-WS

**IN RE: APPLICATION OF BLUE GRANITE WATER COMPANY FOR
APPROVAL TO ADJUST RATE SCHEDULES AND INCREASE RATES**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Anthony D. Briseno. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Senior Auditor for the Office of Regulatory Staff ("ORS").

Q. DID YOU FILE DIRECT TESTIMONY AND ONE (1) EXHIBIT RELATED TO THIS PROCEEDING?

A. Yes. I filed Direct Testimony and one (1) exhibit with the Public Service Commission of South Carolina ("Commission") on January 23, 2020.

Q. WHAT IS THE PURPOSE OF YOUR REVISED SURREBUTTAL TESTIMONY?

A. The purpose of my Revised Surrebuttal Testimony is to respond to the Rebuttal Testimony filed by Blue Granite Water Company ("Company" or "BGWC") witness DeStefano on February 6, 2020 in regards to several ORS adjustments. Additionally, my Revised Surrebuttal Testimony will update the following adjustments:

- ORS Adjustment 8b – Adjust Purchased Water and Sewer Expenses Going Forward

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- ORS Adjustment 9c – Amortization of Litigation Deferrals, Deferred Storm Costs, Decommissioning Costs and Net Book Value (“NBV”) of Decommissioned Assets
- ORS Adjustment 26c – Pro Forma Property Taxes
- ORS Adjustment 34b – Unamortized Balances for Decommissioned Assets, NBV on Decommissioned Assets and Excess Deferred Income Taxes (“EDIT”)
- ORS Adjustment 36 – Contributions in Aid of Construction (“CIAC”)

I’ll begin by explaining the changes ORS has made to Adjustments 8b, 9c, 26c, 34b, and 36. Then I’ll describe the dispute the Company has with adjustment 34b, then the dispute the Company has with ORS’s calculations of accumulated depreciation and accumulated amortization of CIAC. In addition, I provide Surrebuttal Audit Exhibit ADB-1, which is an updated version of Audit Exhibit ADB-1 attached to my Direct Testimony, based on my Revised Surrebuttal Testimony.

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Q. WHAT ARE THE CHANGES MADE TO ORS’S CALCULATION OF ADJUSTMENT 8B?

A. ORS updated the non-revenue water in excess of 10% for this adjustment as discussed in the Revised Surrebuttal Testimony of ORS witness Maurer from (\$271,930) to (\$251,311). This update changes ORS Adjustment 8b from \$2,303,674 to \$2,324,292.

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Q. WHAT ARE THE CHANGES MADE TO ORS’S CALCULATION OF ADJUSTMENTS 9C AND 34B?

A. ORS updated the amortization periods for the decommissioned plants to correct formula errors which resulted in a calculation of 29.64 years for the Stonegate Water Treatment Plant and 31.12 years for the Friarsgate Wastewater Treatment Plant. These calculations were based upon the net book value balance of each object account that was

removed from plant in service for each decommissioned treatment plant, multiplied by ORS witness Garrett's depreciation rates applicable to the respective object accounts. The sum of the depreciation expense for the decommissioned plants was then divided by the sum of the net balance needed for recovery for each decommissioned treatment plant to arrive at the composite rate used to amortize the balance for each decommissioned treatment plant. ORS Adjustment 9c totals \$354,374 based upon the updated calculations. ORS Adjustment 34b totals \$4,818,972 based upon the updated calculations. These changes are reflected in Surrebuttal Audit Exhibit ADB-1.

Q. WHAT ARE THE CHANGES MADE TO ORS'S CALCULATION OF ADJUSTMENT 36?

A. ORS's calculation was updated to correctly capture the inverse of ORS's calculation of CIAC expense whereas the original adjustment proposed by ORS did not. Adjustment 36 totals \$2,205,787 based upon the updated calculations.

Q. WHAT ARE THE CHANGES MADE TO ORS'S CALCULATION OF ADJUSTMENT 26C?

A. ORS's calculation was updated to correctly capture the change made to ORS Adjustment 36 and correct an error that was discovered during the calculation update. ORS Adjustment 26c totals \$196,181 based upon the updated calculations.

Q. DOES COMPANY WITNESS DESTEFANO DISPUTE THE CALCULATION OF ORS ADJUSTMENT 34B?

A. Yes.

Q. CAN YOU PLEASE DESCRIBE COMPANY WITNESS DESTAFANO'S DISPUTE WITH THE CALCULATION OF ORS ADJUSTMENT 34B?

1 **A.** Company witness DeStefano discusses cut off dates for inclusion in rate base on page
2 35 line 7 through page 36 line 5 in his Rebuttal Testimony. It is my understanding that
3 Company witness DeStefano's dispute with the calculation of ORS Adjustment 34b is that
4 the Company does not want to have the one (1) year of amortization expense removed from
5 the decommissioned plants and EDIT balances before included in rate base.

6 **Q. IS THE COMPANY'S POSITION CONTRADICTORY TO THE RATE BASE**
7 **TREATMENT IT AFFORDS UNAMORTIZED BALANCES OF DEFERRED**
8 **MAINTENANCE?**

9 **A.** Yes. In the Company's application, the Company proposed to amortize the total cost
10 of the deferred maintenance over five years, incorporate one year of amortization expense
11 within maintenance expenses and incorporate the remaining 4/5 balance in rate base. This
12 proposed treatment contradicts the Company's treatment for the deferral balances of the
13 decommissioned treatment plants and EDIT. It also contradicts the Company's assertion that
14 ORS should not have adjusted the unamortized balances for the decommissioned plants and
15 excess deferred income taxes by one year of amortization before including the balances in
16 rate base.

17 **Q. DOES THE COMMISSION'S ORDER IN THE COMPANY'S LAST RATE CASE**
18 **IN DOCKET NO. 2017-292-WS SUPPORT ORS'S POSITION THAT BALANCES**
19 **SHOULD HAVE ONE YEAR OF AMORTIZATION REMOVED BEFORE**
20 **INCLUDING THE BALANCES IN RATE BASE?**

21 **A.** Yes, the Commission accepted similar adjustments made by ORS in Commission
22 Order No. 2018-345(A) on page 24, section G. "Other Adjustments".

1 **Q. DOES COMPANY WITNESS DESTEFANO'S REBUTTAL TESTIMONY ON**
2 **PAGE 34, LINES 12 THROUGH 16, ASSERT ORS HAS ADJUSTED**
3 **ACCUMULATED DEPRECIATION AND ACCUMULATED AMORTIZATION OF**
4 **CIAC USING PROPOSED DEPRECIATION / AMORTIZATION RATES?**

5 **A.** Yes. There are other factors that affected accumulated depreciation and accumulated
6 amortization of CIAC, but it is correct that ORS adjusted accumulated depreciation and
7 accumulated amortization of CIAC using the proposed depreciation / amortization rates as
8 proposed by ORS witness Garrett. However, if the Company is to make the argument that
9 accumulated depreciation and accumulated amortization of CIAC should not be reflective of
10 the usage of the proposed depreciation / amortization rates, then depreciation expense and
11 CIAC amortization expense should also be calculated using the Company's previous
12 Commission approved depreciation rate of 1.5% for the majority of its plant accounts instead
13 of the new rates proposed in the depreciation studies.

14 **PLEASE EXPLAIN.**

15 Like a scale, the books must balance. If one side of the scale receives increased
16 depreciation expense, the other side of the scale should receive an equal increase to
17 accumulated depreciation expense, otherwise the scale will not balance.

18 The Company's argument is flawed in the general sense that it fails to adjust for
19 known and measurable changes. In general, a rate case adjusts a test year for known and
20 measurable changes to reflect the expected expense levels and rate base in an attempt to set
21 fair and reasonable rates that provide the Company an opportunity to earn a fair and
22 reasonable return. Incorporating a year of depreciation expense based upon proposed rates,

1 without incorporating the proposed rates in the calculation of accumulated depreciation is
2 not adjusting a test year expense and rate base reflective of known and measurable changes.

3 For this reason, the Company's proposal is also not fair or reasonable for customers.
4 The Company should not receive the benefit of increased depreciation expense using the new
5 depreciation rates to determine the revenue requirement without being required to make an
6 equal offsetting entry to accumulated depreciation. The same is true for the calculation of the
7 amortization of CIAC and accumulated amortization of CIAC, which is a benefit to the
8 Company.

9 **Q. IS THE COMPANY'S POSITION IN REGARDS TO ADJUSTING**
10 **DEPRECIATION EXPENSE BY THE NEW RATES BUT NOT THE**
11 **ACCUMULATED DEPRECIATION INCORRECT FROM AN ACCOUNTING**
12 **PERSPECTIVE?**

13 **A.** Yes. When a journal entry is made to record a debit to depreciation expense, a
14 corresponding credit entry is made in the same amount to accumulated depreciation.
15 Additionally, this same principle applies when a journal entry is made to record the
16 amortization of CIAC. The debit is recorded to accumulated amortization of CIAC and the
17 credit is recorded to CIAC amortization expense for the exact same amount. These are basic
18 concepts that apply when recording entries for depreciation and amortization of CIAC.

19 **Q. IN ORDER TO RECORD THE NEW DEPRECIATION EXPENSE, SHOULD**
20 **THERE BE AN EQUAL OFFSETTING ENTRY MADE TO ACCUMULATED**
21 **DEPRECIATION?**

22 **A.** Yes.

1 **Q. IN ORDER TO RECORD THE NEW CIAC AMORTIZATION EXPENSE,**
2 **SHOULD THERE BE AN EQUAL OFFSETING ENTRY MADE TO**
3 **ACCUMULATED AMORTIZATION OF CIAC?**

4 **A. Yes.**

5 **Q. ARE THERE SOURCES THAT SUPPORT ORS'S ADJUSTMENT TO**
6 **ACCUMULATED DEPRECIATION / ACCUMULATED AMORTIZATION OF**
7 **CIAC USING THE PROPOSED RATES?**

8 **A. Yes. In the Accounting for Public Utilities Manual, Chapter 7.08, Section 2 states**
9 **the following:**

10 "Depreciation and amortization expenses are also based upon forecasted levels or
11 upon historical levels with pro forma adjustments to recognize changes in
12 depreciation rates or changes in test year depreciable plant (e.g., to recognize
13 depreciation requirements on year-end plant levels or construction projects added to
14 the rate base because of imminent completion and use). Some commissions, in
15 annualizing depreciation expenses to a year-end rate base, have concurrently added
16 an equal amount (or sometimes one-half of the expense amount) to the recorded year-
17 end depreciation reserve. **The adjustment to the reserve is generally based on the**
18 **rationale that double entry accounting concepts will produce an equal impact**
19 **on the accumulated provisions for depreciation and on the assumption that to**
20 **fail to recognize the impact on net plant will result in an overstated rate base on**
21 **a prospective basis."** (emphasis added)

22
23 Accounting for Public Utilities Manual, Chapter 6.04, also states the following:

24 "Regulators typically require recording the depreciation reserve at the same
25 depreciable group level used for calculating annual provisions."
26

27 **Q. HAS THE COMMISSION RECENTLY RULED ON THIS ISSUE?**

28 **A. Yes. In Docket No. 2018-319-E, both Duke Energy Carolinas, LLC ("DEC") and**
29 **ORS proposed to adjust accumulated depreciation by the amount of depreciation expense**
30 **that was calculated using the new rates from DEC's depreciation study. Also, in Docket No.**
31 **2018-318-E, both Duke Energy Progress, LLC ("DEP") and ORS proposed to adjust**

1 accumulated depreciation by the amount of depreciation expense that was calculated using
2 the new rates from DEP's depreciation study. In both of these rate cases, the Commission
3 has agreed with this methodology through Commission Order Nos. 2019-323 and 2019-341
4 for DEC and DEP respectively.

5 **Q. IS IT COMMON PRACTICE OF ORS TO CALCULATE DEPRECIATION**
6 **EXPENSE AND INCLUDE AN EQUAL OFFSET TO ACCUMULATED**
7 **DEPRECIATION FOR RATE CASES?**

8 **A. Yes.**

9 **Q. DID ORS INCORPORATE THIS METHODOLOGY OF CALCULATING**
10 **DEPRECIATION EXPENSE AND AN EQUAL OFFSET TO ACCUMULATED**
11 **DEPRECIATION IN THE COMPANY'S LAST RATE CASE, DOCKET NO. 2017-**
12 **292-WS AND DID THE COMMISSION ACCEPT ORS'S ADJUSTMENT IN THAT**
13 **DOCKET?**

14 **A. Yes, this methodology was used by ORS in the Company's last rate case and**
15 **approved by the Commission in Order No. 2018-345, on page 23, under section G. "Other**
16 **Adjustments".**

17 **Q. ARE YOU THE ORS WITNESS THAT RECOMMENDED THE UNAMORTIZED**
18 **BALANCE OF DEFERRED MAINTENANCE NOT BE INCLUDED WITHIN**
19 **RATE BASE?**

20 **A. No. I am not. Company witness DeStefano references me as the witness for this**
21 **recommendation on line 20 of page 26 in his Rebuttal Testimony. However, ORS witness**
22 **Sullivan addresses that recommendation.**

1 Q. WILL YOU UPDATE YOUR REVISED SURREBUTALL TESTIMONY BASED
2 ON INFORMATION THAT BECOMES AVAILABLE?

3 A. Yes. ORS fully reserves the right to revise its recommendations via supplemental
4 testimony should new information become available not previously provided by the
5 Company, or other sources, become available.

6 Q. DOES THIS CONCLUDE YOUR REVISED SURREBUTTAL TESTIMONY?

7 A. Yes, it does.